

# MRC Delaware Resources, LLC

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**Jeff Lierly, CPL**  
**Senior Landman**

January 5, 2016

VIA CERTIFIED RETURN RECEIPT MAIL

Working Interest Owners See Exhibit "A"

Re: Mallon 27 Fed Com 1H Participation Proposal  
SHL: 330' FSL & 660' FEL; BHL: 660' FSL & 2,310' FEL  
Section 22 and 27 Township 19 South, Range 34 East  
Lea County, New Mexico

James K. and Martha L. Lusk, Trustees of the James K. Lusk and Martha L. Lusk Trust:

MRC Delaware Resources, LLC and its operating company Matador Production Company (collectively "MRC") propose the drilling of the Mallon 27 Fed Com 1H well (the "Well"), located in the E/2E/2 of Section 27 and E/2SE/4 of Section 22, Township 19 South, Range 34 East, Lea County, New Mexico, to test the Bone Spring formation. The estimated cost of drilling, testing, completing, and equipping the Well is \$8,983,961.00, as itemized on the enclosed Authority for Expenditure ("AFE") dated December 17, 2015.

The Well will be drilled to a total vertical depth of 10,860' and a total measured depth of 17,929', producing a treatable lateral of approximately 7,200' within the Bone Spring formation to be completed with 18 stages.

MRC is proposing to drill the Well under the terms of the modified 1989 AAPL form of Operating Agreement ("OA") which was previously furnished for your review and approval. The Operating Agreement will cover the E/2SE/4 of Section 22 and E/2E/2 of Section 27, Township 19 South, Range 34 East, Lea County, New Mexico from the surface to the base of the Bone Spring formation ("Contract Area") pursuant to the following terms:

- 100/300/300% Non-consent penalty
- \$7,000/\$700 Drilling and Producing overhead rate

MRC requests that you indicate your election to participate in the drilling and completion of the Well in the space provided below, sign and return one (1) copy of this letter along with your geological well requirements, the AFE, the OA and four (4) copies of the Communitization Agreement for the Well to the undersigned. Please be advised that MRC intends to file for compulsory pooling in an effort to ensure all required documents are obtained from all working interest owners in a timely fashion.

**BEFORE THE OIL CONVERSATION  
DIVISION**  
Santa Fe, New Mexico  
**Exhibit No. 8**  
Submitted by: **Matador Production Co.**

James K. and Martha L. Lusk, Trustees of the James K. Lusk and Martha L. Lusk Trust will own approximately 0.125000% working interest in the Well, subject to title verification.

If your election is to participate in the drilling and completion of the Well, please sign and return a copy of the enclosed AFE within thirty (30) days of receipt of this notice. Please be aware that the enclosed AFE is only an estimate of costs to be incurred and by electing to participate in the Well, each working interest owner shall be responsible for its proportionate share of all costs incurred.

Please contact me if you have any questions.

Sincerely,



Jeff Lierly, CPL

Enclosures

Please elect one of the following and return to sender.

\_\_\_\_\_ James K. and Martha L. Lusk, Trustees of the James K. Lusk and Martha L. Lusk Trust hereby elect(s) to participate for its proportionate share of the costs detailed in the enclosed AFE associated with the Mallon 27 Fed Com 1H.

\_\_\_\_\_ James K. and Martha L. Lusk, Trustees of the James K. Lusk and Martha L. Lusk Trust hereby elect(s) not to participate for its proportionate share of the costs detailed in the enclosed AFE associated with the Mallon 27 Fed Com 1H.

\_\_\_\_\_ I / We are interested in selling our interest in the Contract Area, please contact us to discuss.

James K. and Martha L. Lusk, Trustees of the James K. Lusk and Martha L. Lusk Trust

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

# MATADOR PRODUCTION COMPANY

ONE LINCOLN CENTRE • 5400 LBJ FREEWAY • SUITE 1500 • DALLAS, TEXAS 75240  
Phone (972) 371-5200 • Fax (972) 371-5201

## ESTIMATE OF COSTS AND AUTHORIZATION FOR EXPENDITURE

DATE:	December 17, 2015	AFE NO.:	0
WELL NAME:	Mallion 27 Fed Com 1H	FIELD:	Bone Spring
LOCATION:		MD/TVD:	17929/10860'
COUNTY/STATE:	Lea	LATERAL LENGTH:	~7,200
MRC Wt:			
GEOLOGIC TARGET:	3rd Bone Spring		
REMARKS:	Drill and complete a horizontal 3rd Bone Spring well with 18 stages		

INTANGIBLE COSTS	DRILLING COSTS	COMPLETION COSTS	PRODUCTION COSTS	FACILITY COSTS	TOTAL COSTS
Land / Legal / Regulatory	\$ 36,700				\$ 36,700
Location, Surveys & Damages	100,500	13,000	4,000		117,500
Drilling	765,000				765,000
Cementing & Float Equip	220,000				220,000
Logging / Formation Evaluation		8,500			8,500
Mud Logging	38,500				38,500
Mud Circulation System	56,360				56,360
Mud & Chemicals	75,000	24,000			99,000
Mud / Wastewater Disposal	170,000				170,000
Freight / Transportation	36,000	12,000		21,000	69,000
Rig Supervision / Engineering	100,800	51,200	18,000	54,000	224,000
Drill Bits	85,000				85,000
Fuel & Power	84,000				84,000
Water	42,500	514,000		15,000	571,500
Drig & Completion Overhead	14,500	11,000			25,500
Plugging & Abandonment					
Directional Drilling, Surveys	274,000				274,000
Completion Unit, Swab, CTU		76,000	28,000		104,000
Perforating, Wireline, Stickline		80,800	20,000		80,800
High Pressure Pump Truck		56,000			56,000
Stimulation		2,250,000			2,250,000
Stimulation Flowback & Disp		80,000			80,000
Insurance	32,272				32,272
Labor	116,500	19,500	6,000		142,000
Rental - Surface Equipment	76,200	132,250	12,000	15,000	235,450
Rental - Downhole Equipment	50,000	39,000		20,000	109,000
Rental - Living Quarters	57,960	22,130	2,000		82,110
Contingency	243,481	336,738	9,000	11,000	600,219
<b>TOTAL INTANGIBLES &gt;</b>	<b>2,678,293</b>	<b>3,704,118</b>	<b>99,000</b>	<b>136,000</b>	<b>6,617,411</b>

TANGIBLE COSTS	DRILLING COSTS	COMPLETION COSTS	PRODUCTION COSTS	FACILITY COSTS	TOTAL COSTS
Surface Casing	\$ 62,150				\$ 62,150
Intermediate Casing	157,350				157,350
Drilling Liner					
Production Casing	459,500				459,500
Production Liner					
Tubing			52,000		52,000
Wellhead	55,000		65,000		120,000
Packers, Liner Hangers		36,000			36,000
Tanks				120,000	120,000
Production Vessels			70,000	82,000	152,000
Flow Lines			50,000	125,000	175,000
Rod string					
Artificial Lift Equipment			250,000		250,000
Compressor					
Installation Costs			97,000	240,000	337,000
Surface Pumps			5,000		5,000
Non-controllable Surface			36,000	150,000	186,000
Non-controllable Downhole					
Downhole Pumps					
Measurement & Meter Installation			12,500	24,000	36,500
Gas Conditioning / Dehydration					
Interconnecting Facility Piping					
Gathering / Bulk Lines				15,050	15,050
Valves, Dumps, Controllers				8,000	8,000
Tank / Facility Containment				40,000	40,000
Flare Stack				50,000	50,000
Electrical / Grounding				30,000	30,000
Communications / SCADA					
Instrumentation / Safety				75,000	75,000
<b>TOTAL TANGIBLES &gt;</b>	<b>734,000</b>	<b>36,000</b>	<b>637,500</b>	<b>999,050</b>	<b>2,368,550</b>
<b>TOTAL COSTS &gt;</b>	<b>3,412,293</b>	<b>3,740,118</b>	<b>736,500</b>	<b>1,095,050</b>	<b>8,983,961</b>

**PREPARED BY MATADOR PRODUCTION COMPANY:**

Drilling Engineer: Patrick Walsh	Team Lead - WT/XNM <u>KTS</u>	
Completions Engineer: Ben Peterson		KTS
Production Engineer: Trent Goodwin		

**MATADOR RESOURCES COMPANY APPROVAL:**

Executive VP, COO/CFO _____	VP - Res Engineering _____ SWR	VP - Drilling _____ BG
Executive VP, Legal _____ CA	Exec Dir - Exploration _____ NIF	VP - Production _____ TWB
President _____ MVH	VP & General Manager _____ RCL	

**NON OPERATING PARTNER APPROVAL:**

Company Name: _____	Working Interest (%): _____	Tax ID: _____
Signed by: _____	Date: _____	
Title: _____	Approval: <u>Yes</u> _____	No (mark one) _____

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